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GENERAL

1. US security guarantees believed needed--US Ambassador Caffery in Paris believes that the hope of a European recovery program is no longer enough to eliminate chances of Communist success in France and western Europe. Caffery reports his conviction that among the people of western Europe some assurance from the US of "a reasonable possibility of security" is as important to eliminate the fear of Communist aggression as the recovery program is to prevent economic and political chaos. Caffery feels that a majority of the French people view a western European union whose security was not "actively supported by the US as meaningless and dangerous." Caffery declares that in order to be effective this assurance cannot be long delayed.
2. USSR reportedly encouraging Kurdish independence movement--US Embassy London has been informed by the British Foreign Office that the Soviet Minister in Beirut has advised the Syrian Kurds not to join in the Arab fight against the Jews in Palestine but to hold themselves ready to fight soon for an independent Kurdistan. The Foreign Office believes that Soviet support of Palestine partition is based on a desire to establish in the Middle East a "partition precedent" which can be used to weaken seriously Iran, Turkey, and Iraq.

(CIA Comment: CIA agrees that the USSR hopes to establish a precedent for partition which will facilitate the establishment of an independent Kurdistan and the expansion of the Armenian and Azerbaijan Soviet Republics.)

EUROPE

3. ITALY: Possible Communist violence--The US Military Attache in Rome believes that: (a) if the prospects for a strong Popular Front plurality in the April elections continue, the Italian Communists will not attempt any violence until

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after the elections; and (b) if the likelihood of such a plurality strongly decreases, serious pre-election violence by the Communists is definitely a possibility. The MA further believes that if the Leftist bloc receives a large plurality in the elections and if the Government maneuvers to exclude the Communists from governmental participation, a resumption of violence and strikes will occur.

(CIA Comment: CIA concurs in the estimate of the MA.)

THE EAST

4. **CHINA: Government's exchange assets nearing exhaustion** -- A Central Bank of China official has informed US Embassy Nanking that the bank's US dollar reserves are "virtually exhausted" and that only "some" gold and silver reserves remain. The Embassy comments that, in view of the recent sharp break in the black market exchange rate of Chinese national dollars and recent Government requests for advances of US funds to cover petroleum and cotton imports, this report is "possibly true." (The financial adviser to the Chinese Government told Ambassador Stuart last November that China's official reserves might be completely exhausted by April 1948.)

(CIA Comment: CIA believes that: (a) the Chinese Government's present holdings of uncommitted foreign exchange at the Central Bank and other government banks are quite small; and (b) very probably these official holdings will soon reach rock-bottom levels.)

THE AMERICAS

5. **PARAGUAY: Position of President-elect Gonzalez strengthened** -- The US Military Attache in Asuncion reports that President Morinigo has removed the army chief of staff and has ordered the arrest of other army officers who are in opposition to President-elect Gonzalez.

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(CIA Comment: Other reports from the field indicate that Gonzalez: (a) now has effective control of the army and no successful opposition can be expected; and (b) will maintain an authoritarian, one-party government.

6. **COSTA RICA: Truce negotiations continuing**--According to US Embassy San Jose, there is "some prospect of success" for present negotiations for resolution of the political impasse in Costa Rica.

(CIA Comment: Further delay in resolving the present situation will make it more difficult for responsible leaders of both the Government and the opposition to prevent serious civil conflict and bloodshed.)

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